

Message Text

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SUBJECT: BULGARIA "FLOATS" THE DOLLAR

REF: SOFIA 2412

1. SUMMARY: THE BULGARIAN FOREIGN TRADE BANK HAS INFORMED
EMBOFFS THAT IN ADDITION TO THE RECENT ELIMINATION OF THE
TOURIST PREMIUM ON FOREIGN EXCHANGE RATES, THE OFFICIAL
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TOURIST PREMIUM ON FOREIGN EXCHANGE RATES, THE OFFICIAL DOLLAR EXCHANGE RATE IS NOW BEING "FLOATED" IN RELATION TO THE LEVA. THE BANK ALSO ALLEGED THAT THE REVALUATION WAS THE RESULT OF INFLATION IN THE WEST WHICH WAS ERODING COMPARATIVE PURCHASING POWER OF THE DOLLAR, AND THAT FURTHER REVALUATION COULD BE EXPECTED IF WESTERN INFLATION CONTINUES. END SUMMARY.

2. DURING COURSE OF A CALL ON PETUR MARINOV, MEMBER OF THE BOARD AND A DIRECTOR OF THE BULGARIAN FOREIGN TRADE BANK, TO DISCUSS RECENT LEVA REVALUATION (SEE REFTEL) EMBOFFS WERE INFORMED THAT NOT ONLY HAS THE TOURIST PREMIUM BEEN ELIMINATED BUT THAT HENCEFORTH NEW FOREIGN CURRENCY EXCHANGE RATE CALCULATIONS ARE IN EFFECT WHICH "FLOAT" THE DOLLAR. ACCORDING TO MARINOV, BULGARIAN METHODOLOGY IN DETERMINING OFFICIAL EXCHANGE RATES IS QUITE SIMILAR TO THAT USED TO DETERMINE THE SDR, BUT THE BASKET USED TO DETERMINE DOLLAR EXCHANGE RATE RELATIVE TO THE LEVA IS COMPOSED OF JUST THE TEN CURRENCIES WHICH CONSTITUTE 96 PERCENT OF THE BANK'S FOREIGN EXCHANGE ACTIVITIES. U.S. DOLLAR IS WEIGHTED AT 60 PERCENT OF THE TOTAL WHILE THE OTHER NINE CURRENCIES (WHICH MARINOV REFUSED TO SPECIFY) CONSTITUTE THE REMAINING 40 PERCENT. ONCE EXCHANGE RATE OF THE DOLLAR TO THE LEVA HAS BEEN DETERMINED, EXCHANGE RATES RELATIVE TO OTHER HARD CURRENCIES ARE DETERMINED BY VALUE OF THESE CURRENCIES TO THE DOLLAR. PRIOR TO NOVEMBER 1, 1975, OFFICIAL RATE FOR DOLLARS WAS CALCULATED BY COMPARING PAR VALUE OF THE DOLLAR AND LEV IN GOLD, AND OFFICIAL VALUES OF OTHER HARD CURRENCIES WERE CALCULATED FROM THEIR RELATION TO THE DOLLAR. BULGARIAN FOREIGN TRADE BANK RELEASES NEW FOREIGN EXCHANGE QUOTATION BULLETINS ON THE FIRST OF EACH MONTH. THIS EXCHANGE RATE APPLIES ONLY TO CURRENCY TRANSACTIONS IN BULGARIA.

3. MARINOV INDICATED THAT UNDER NEW SYSTEM, VALUE OF THE DOLLAR AGAINST THE LEV COULD RISE OR FALL, BUT ONLY INSOFAR AS ITS RELATIONSHIP TO THE OTHER CURRENCIES IN THE BASKET CHANGED. HE CLAIMED MANY AMERICAN BANKERS HAD URGED BULGARIA TO MAKE SUCH A MOVE, AND THAT BULGARIA WAS NOT THE FIRST CEMA COUNTRY TO FLOAT THE DOLLAR, CITING GDR, USSR, LIMITED OFFICIAL USE

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CZECHOSLOVAKIA AND HUNGARY AS EXAMPLES.

4. IN DISCUSSING THE REVALUATION, MARINOV STATED BULGARIA HAD INTRODQCED THE TOURIST PREMIUM IN 1963 TO ATTRACT FOREIGNERS FOR BULGARIA'S DEVELOPING TOURIST INDUSTRY. SINCE THAT TIME INFLATION HAD BEEN EATING AWAY THE VALUE OF THE HARD CURRENCIES, AND BULGARIA HAD ACCORDINGLY BEEN REDUCING THE SIZE OF THE TOURIST PREMIUM. AGAIN THIS YEAR AS LAST, STUDIES

WHICH HAD BEEN CONDUCTED ON THE COMPARATIVE COSTS OF GOODS AND SERVICES IN BULGARIA AND ABROAD INDICATED THE PURCHASING POWER OF THE LEV WAS AGAIN ABOVE THAT OF WESTERN HARD CURRENCIES BECAUSE OF WESTERN INFLATION. CONCLUSION WAS THAT IN ORDER TO MAINTAIN PURCHASING PARITY, TOURIST PREMIUM SHOULD BE ELIMINATED.

5. IN RESPONDING TO QUESTION ON THE EFFECT THIS DECISION MAY HAVE ON BULGARIA'S EXPANDING TOURIST INDUSTRY, MARINOV STATED THAT AFTER THE NOVEMBER 1974 REVALUATION (WHICH MADE THE LEV 37 PERCENT MORE EXPENSIVE VIS-A-VIS THE DOLLAR) BULGARIA HAD CAREFULLY MONITORED EFFECT ON TOURISM. IN PRACTICE, HOWEVER, LAST YEAR'S REVALUATION DID NOT HAVE A DETERRENT EFFECT ON TOURISM; NUMBER OF TOURISTS INCREASED 0 PERCENT IN 1974 AND THE RATE OF HARD CURRENCY INFLOW WAS "3-4 TIMES GREATER." MARINOV STRONGLY IMPLIED HE FELT THE TOURIST TRADE HAD POTENTIAL FOR FAR GREATER HARD CURRENCY EARNINGS.

6. AS IS TYPICAL AT THE BANK, MARINOV WAS UNFORTHCOMING ON OTHER TOPICS. HE STATED HE WAS NOT IN A POSITION TO DISCUSS THE GOB'S POLICY TOWARD THE EUROMARKET, AND WOULDN'T EVEN CONSIDER QUESTIONS ON BULGARIA'S INDEBTEDNESS OR HARD CURRENCY RESERVES. HE DID STATE THAT ON LARGE SCALE NEGOTIATIONS BULGARIA'S FTO'S HAVE BEEN INSTRUCTED TO NEGOTIATE ON THE BASIS OF STRAIGHT CASH DEALS WHILE LEAVING TO THE BANK ALL PROBLEMS OF FINANCING. HE ALSO STATED, IN REPLY TO A QUESTION ON THE EFFECTS ON BULGARIA'S ECONOMY IF WESTERN CURRENCIES CONTINUE TO INFLATE, THAT THE GOB WOULD CONSIDER FURTHER REVALUATIONS.

7. COMMENT: BOTH THE BANK AND THE DIPLOMATIC SERVICE BUREAU WHICH ANNUALLY RAISES EMBASSY RENTS AT EXORBITANT RATES (SOME OF THE MONTHLY RENTS FOR EMBASSY APARTMENTS ARE NOW ALMOST LIMITED OFFICIAL USE

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EQUIVALENT TO THE ANNUAL SALARIES OF BULGARIAN WORKERS) USE THE EXCUSE OF WESTERN INFLATION AND COMPARATIVE PURCHASING POWER OF THE LEV TO WESTERN CURRENCIES. IN FACT, SOLE MOTIVATING FACTOR BEHIND THESE DECISIONS SEEMS TO BE DESIRE FOR HARD CURRENCY. EMBASSY TAKES MARINOV'S COMMENT ABOUT POSSIBLE FURTHER REVALUATIONS TO MEAN THAT EFFECTS OF THIS YEAR'S REVALUATION ON THE TOURIST TRADE WILL AGAIN BE MEASURED WITH AN EYE TO ITS EFFECT ON HARD CURRENCY EARNINGS; IF NO ADVERSE EFFECTS ARE ENCOUNTERED, BULGARIA MAY WELL REPEAT THE PROCESS IN 1976.

8. THE NECESSITY OF TAPPING ALL SOURCES OF HARD CURRENCY BY SUCH MEASURES IS GIVEN CREDENCE BY THE FACT OTHER EMBASSIES IN SOFIA ARE GENERALLY REPORTING EVEN GREATER SURPLUSES IN THEIR TRADE FIGURES WITH BULGARIA THAN LAST YEAR. AT SAME TIME,

MANY INFORMED BANK SOURCES INDICATE BULGARIA HAS ROUGHLY DOUBLED ITS INDEBTEDNESS IN THE EURO CURRENCY MARKET IN PAST YEAR. ALTHOUGH THESE SOURCES FEEL BULGARIA IS IN NO DANGER AT PRESENT, CONTINUED EXPANSION OF INDEBTEDNESS AT PRESENT RATE COULD CONCEIVABLY LEAD TO PROBLEMS IN A FEW YEARS.

9. NONETHELESS, BULGARIA'S EXACT FINANCIAL CONDITION IS EXTREMELY DIFFICULT TO ASCERTAIN, AS SO MUCH ESSENTIAL INFORMATION IS VERY CLOSELY HELD. GOB OFFICIALS HAVE ONLY RECENTLY BEEN WILLING TO ADMIT PRIVATELY THAT THE ECONOMIC "CRISIS" IN THE WEST MIGHT BE HAVING UNTOWARD EFFECTS ON THE BULGARIAN ECONOMY, AND EMBASSY IS STILL ASSURED THAT WHATEVER CHANGES THERE MAY HAVE BEEN IN THE PRICE OF OIL FROM THE SOVIET UNION (THIS TOO ONLY RECENTLY AND STILL PRIVATELY) HAVE HAD NO EFFECT AT ALL ON THE SMOOTH FUNCTIONING OF THE BULGARIAN ECONOMY. NONETHELESS, EMBASSY FEELS THAT DESPITE SURFACE ASSURANCE OF BUSINESS AS USUAL, ADJUSTMENTS HAVE BEEN AND ARE CONTINUING TO BE MADE IN FACE OF ECONOMIC DIFFICULTIES WHICH BULGARIA MAY BE FINDING PAINFUL. HERZ UNQUOTE KISSINGER

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